

**ECONOMIC OUTLOOK  
AND  
REVENUE ESTIMATES  
FOR  
MICHIGAN**

**FY 2005-06  
AND  
FY 2006-07**



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# FOREWORD

The House Fiscal Agency (HFA) is pleased to provide this report to members of the Michigan House of Representatives. The report presents final General Fund/General Purpose and School Aid Fund revenue estimates for fiscal year (FY) 2004-05, revised revenue estimates for FY 2005-06, and initial revenue estimates for FY 2006-07. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 12, 2006, and will be used to facilitate the consensus estimating process.

This report includes HFA analyses of important factors that will affect state and national economies through the year 2007, estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and year-end balance estimates for General Fund/General Purpose and the School Aid Fund.

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# EXECUTIVE SUMMARY

According to the National Bureau of Economic Research, the national economic recovery started at the end of 2001. Once the recovery began, high productivity gains outpaced economic growth, which dampened national employment. Compared to Calendar Year (CY) 2004, economic and productivity growth have both slowed somewhat in CY 2005, although the national labor market added more than 1,800,000 jobs through November.

Michigan's wage and salary employment has generally trended downward since mid-2000. In November 2005, Michigan's wage and salary employment grew by 5,800 workers. Over the past six months however, Michigan lost an average of more than 2,300 jobs per month.

## **U. S. Forecast**

Real GDP growth is forecast to increase 3.6% in CY 2005, down from 4.2% in CY 2004. Real GDP is forecast to grow 3.3% in CY 2006 and 3.0% in CY 2007.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline from 3.4% in CY 2005 to 2.6% in CY 2006 and 1.8% in CY 2007.

Light vehicle sales totaled 16.9 million units in CY 2004 and are forecast to drop slightly to 16.8 million in CY 2005 and 16.7 million in CY 2006 before rising back to 16.8 million units in CY 2007. The import share of light vehicles is forecast to be 20.2% in CY 2005, 21.4% in CY 2006, and 21.5% in CY 2007.

The national unemployment rate, which was 5.5% in CY 2004, is forecast to decrease to 5.1% in CY 2005 and 4.9% in both CY 2006 and CY 2007.

Interest rates on three-month T-bills averaged 1.4% in CY 2004; rates are forecast to increase to 3.2% in CY 2005, 4.4% in CY 2006, and 4.5% in CY 2007.

## **Michigan Forecast**

Michigan personal income increased 1.8% in CY 2004. The rate of growth is expected to increase 3.4% in CY 2005, 4.3% in CY 2006, and 4.4% in CY 2007.

Michigan's unemployment rate was 7.1% in CY 2004 and is forecast to be 6.8% in CY 2005, 7.0% in CY 2006, and 7.5% in CY 2007.

Inflation, as measured by the Detroit Consumer Price Index, was 1.6% in CY 2004; it is forecast to accelerate to 2.8% in CY 2005, then decelerate to 2.4% in CY 2006, and 1.7% in CY 2007.

### **State Revenue**

Final total baseline GF/GP and School Aid Fund (SAF) revenue was \$19.0 billion in FY 2004-05, and is forecast to increase 1.7% to \$19.4 billion in FY 2005-06 and 2.7% to \$19.9 billion in FY 2006-07.

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have only recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy.

Final total actual GF/GP and SAF revenue was \$19.2 billion in FY 2004-05, is forecast to increase \$249.1 million or 1.3% in FY 2005-06, and increase \$437.7 million or 2.3% to \$19.9 billion in FY 2006-07. Actual revenue captures the effects of all policy changes and represent resources available.

**Table 1** reports GF/GP and SAF revenue in terms of baseline and actual revenue. House Fiscal Agency's recommended revisions to estimates for FY 2004-05 and FY 2005-06 are reported in **Table 2 and Table 3**.

### **State Revenue Limit**

Final total state revenue is expected to be below the state revenue limit by \$5.0 billion in FY 2004-05; it is estimated to be under the limit by \$5.6 billion in FY 2005-06 and \$6.1 billion in FY 2006-07. Final calculation of the state revenue limit is performed by the Auditor General.

### **Fund Balances**

Beginning GF/GP balance is estimated to be \$220.5 million for FY 2005-06.

Beginning School Aid Fund balance is estimated to be \$98.0 million for FY 2005-06.

Beginning Countercyclical Budget Stabilization Fund balance is estimated to be \$2.0 million for FY 2005-06.

**Table 1**  
**HFA REVENUE ESTIMATES**  
(Millions of Dollars)

	<u>Final</u> <u>FY 2004-05</u>	<u>HFA Estimate</u> <u>FY 2005-06</u>	<u>HFA Estimate</u> <u>FY 2006-07</u>
Baseline GF/GP	\$8,120.9	\$8,194.0	\$8,376.6
Baseline SAF	<u>10,921.3</u>	<u>11,178.2</u>	<u>11,520.0</u>
<b>TOTAL BASELINE</b>	<b>\$19,042.2</b>	<b>\$19,372.1</b>	<b>\$19,896.6</b>
Actual GF/GP	\$8,309.9	\$8,269.0	\$8,362.4
Actual SAF	<u>10,909.9</u>	<u>11,199.8</u>	<u>11,544.1</u>
<b>TOTAL ACTUAL</b>	<b>\$19,219.8</b>	<b>\$19,468.8</b>	<b>\$19,906.5</b>

*NOTE: Numbers may not add due to rounding.*

**Table 2**  
**FY 2004-05 HFA RECOMMENDED REVISIONS**  
(Millions of Dollars)

	<u>August 2005</u> <u>Consensus</u>	<u>January 2006</u> <u>Recommendation</u>	<u>HFA Recommended</u> <u>Revision</u>
Baseline GF/GP	\$7,864.8	\$8,120.9	\$256.1
Baseline SAF	<u>10,849.8</u>	<u>10,921.3</u>	<u>71.5</u>
<b>TOTAL BASELINE</b>	<b>\$18,714.6</b>	<b>\$19,042.2</b>	<b>\$327.6</b>
Actual GF/GP	\$8,053.8	\$8,309.9	\$256.1
Actual SAF	<u>10,838.4</u>	<u>10,909.9</u>	<u>71.5</u>
<b>TOTAL ACTUAL</b>	<b>\$18,892.2</b>	<b>\$19,219.8</b>	<b>\$327.6</b>

*NOTE: Numbers may not add due to rounding.*

**Table 3**  
**FY 2005-06 HFA RECOMMENDED REVISIONS**  
(Millions of Dollars)

	<u>August 2005</u> <u>Consensus</u>	<u>January 2005</u> <u>Recommendation</u>	<u>HFA Recommended</u> <u>Revision</u>
Baseline GF/GP	\$8,137.9	\$8,194.0	\$56.1
Baseline SAF	<u>11,211.5</u>	<u>11,178.2</u>	<u>(33.3)</u>
<b>TOTAL BASELINE</b>	<b>\$19,349.3</b>	<b>\$19,372.1</b>	<b>\$22.8</b>
Actual GF/GP	\$8,212.9	\$8,269.0	\$56.1
Actual SAF	<u>11,233.1</u>	<u>11,199.8</u>	<u>(33.3)</u>
<b>TOTAL ACTUAL</b>	<b>\$19,446.0</b>	<b>\$19,468.8</b>	<b>\$22.8</b>

*NOTE: Numbers may not add due to rounding.*





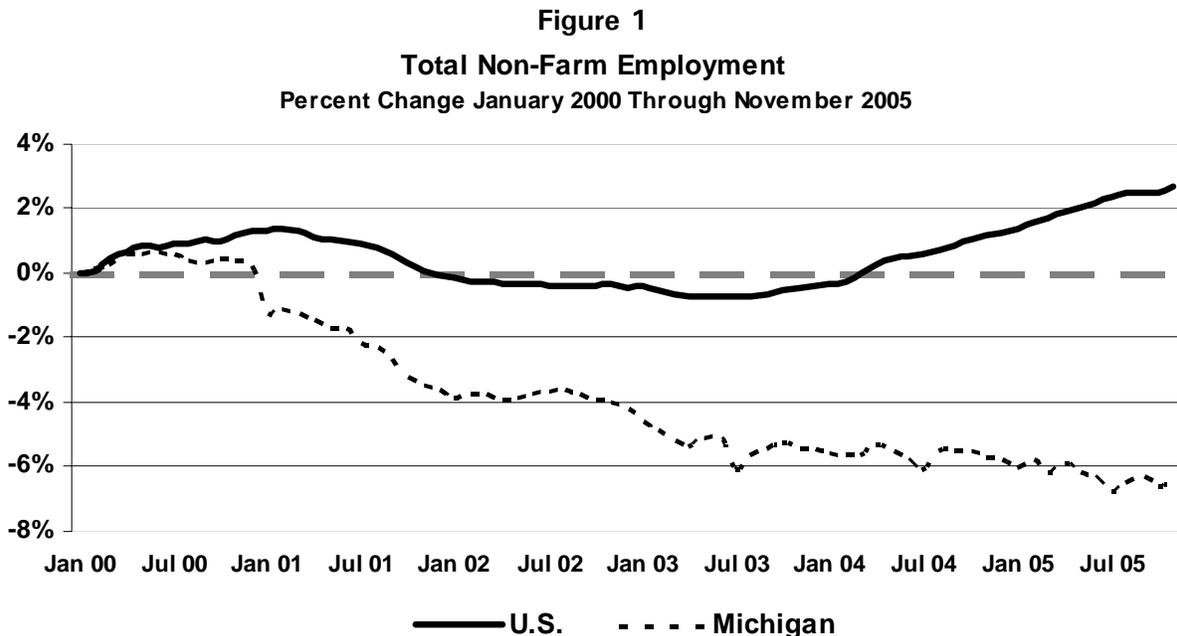
# ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2005-06 and FY 2006-07.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout 2002 and the early part of 2003. At the national level, economic growth accelerated at the end of 2003 and continued through 2005. Job growth at the national level began to improve during the latter half of 2003 and has continued its upward trend.

## Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through November 2005.



**U.S. Non-Farm Employment**

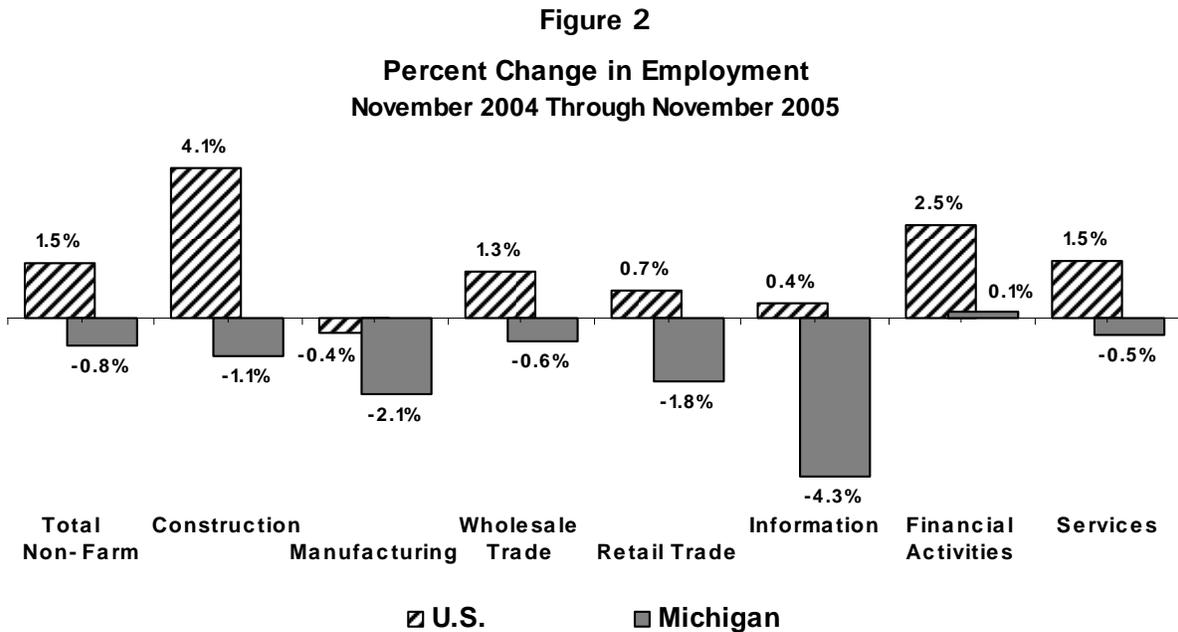
Employment in the U.S. reached a peak in February 2001, and began a long slide that did not end until May 2003. During this 29-month period, the national economy lost more than 2.7 million jobs, or about 100,700 jobs per month on average. In the 30 months since May 2003, almost 4.5 million jobs have been added.

**Michigan Non-Farm Employment**

Although employment has rebounded at the national level, conditions in Michigan are far less optimistic. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following the June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs—a 6.7% decline. In the 28 months since July 2003, employment in Michigan has generally continued to decline, albeit at a slower pace. As of November 2005, more than 18,500 additional jobs have been lost.

**U.S. and Michigan Employment**

Figure 2 shows the percentage change in employment over the past year for all private workers and several important sectors of the economy for both the U.S. and Michigan. Although the U.S. gained almost 2,000,000 jobs over this period, employment in Michigan fell by more than 35,000 jobs.



**U.S. Employment**

From November 2004 to November 2005, the U.S. experienced job gains in all sectors except manufacturing, which shed about 62,000 jobs. These job losses were more than offset by large gains in all other sectors except information.

**Michigan Employment**

From November 2004 to November 2005, Michigan continued to lose jobs in all sectors except financial activities, which experienced an increase of fewer than 500 jobs. Manufacturing employment in Michigan fell by more than 14,000 jobs during the same time period—more than 22% of the overall decline in manufacturing employment.

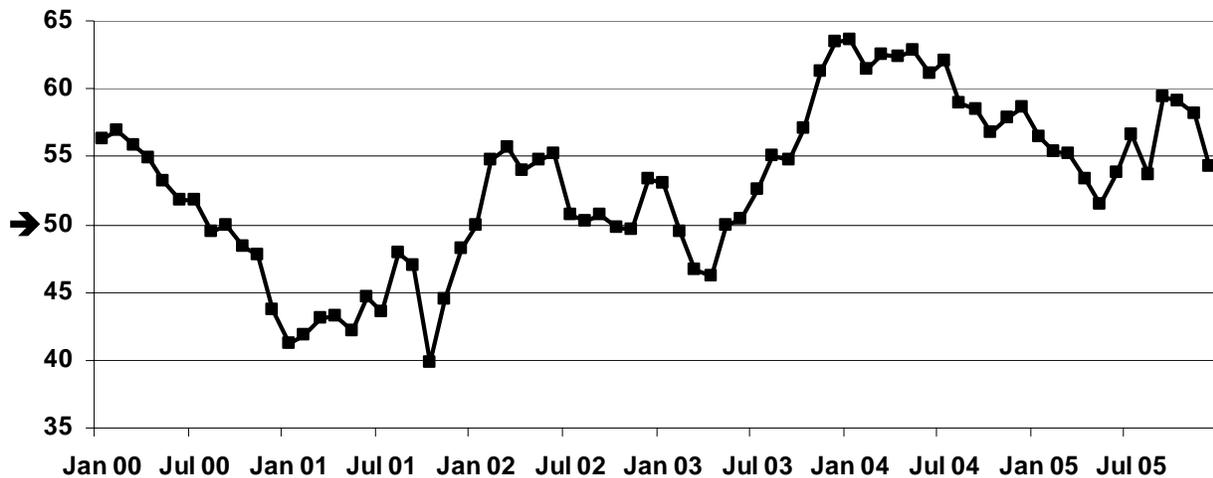
**Institute for Supply Management (ISM) Index**

**Figure 3** shows the ISM Index, a composite index of five economic indicators used to measure economic vitality beginning with January 2000. An index number above 50 indicates a growing manufacturing sector; a number below 50 suggests that the manufacturing sector is contracting.

The index in January 2000 was 56.3; it then fell below 50 in August 2000 and remained below 50 until February 2002. After peaking in June 2002, the index began to drop, and by October it had fallen back below 50—where it remained before jumping to 53.3 in December.

The ISM index dropped during each of the first four months of 2003, then began a strong rebound that led to a 20-year high of 63.3 in January 2004. Although a 16-month slide saw the index decline to a level of 51.4 in May 2005, it rose in three of the next four months before beginning a three month decline to 54.2 in December.

**Figure 3**  
**Institute for Supply Management (ISM) Index**  
**January 2000 Through December 2005**

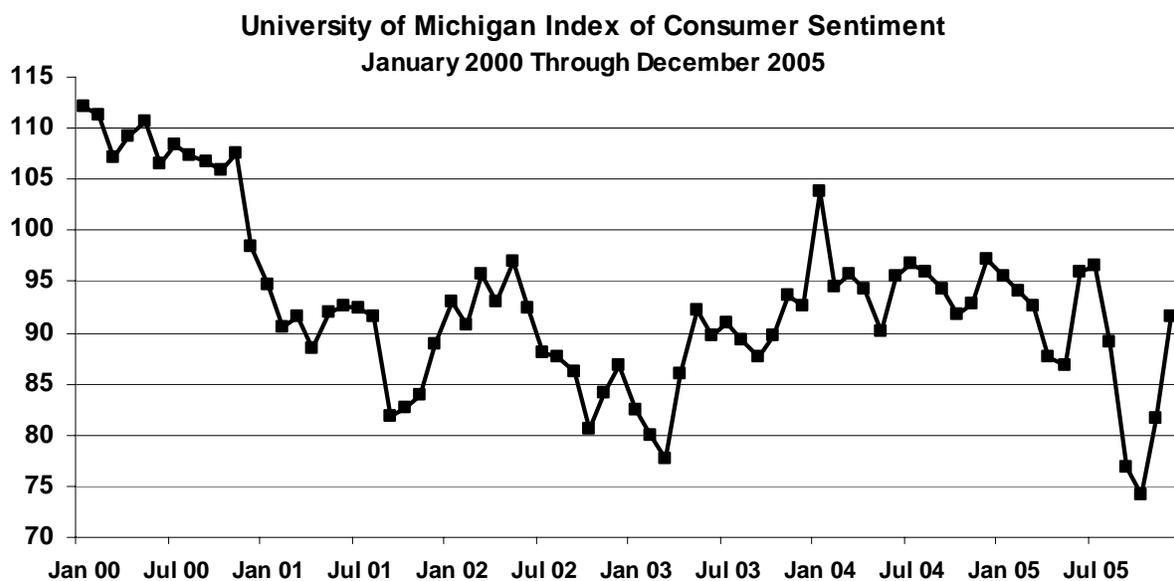


## Index of Consumer Sentiment

Consumer sentiment can be a strong motivator of personal consumption expenditures, which represent almost two-thirds of GDP. **Figure 4** shows the University of Michigan Index of Consumer Sentiment, with a pattern similar to that of the ISM index.

Even though the ISM index began to fall in early 2000, consumers remained cautiously optimistic about the economy. The consumer sentiment index remained at historically high levels throughout most of CY 2000, but dropped in December 2000 and continued falling until February 2001. Like the ISM index, consumer sentiment rebounded somewhat through August 2001 before plunging again in September 2001.

**Figure 4**



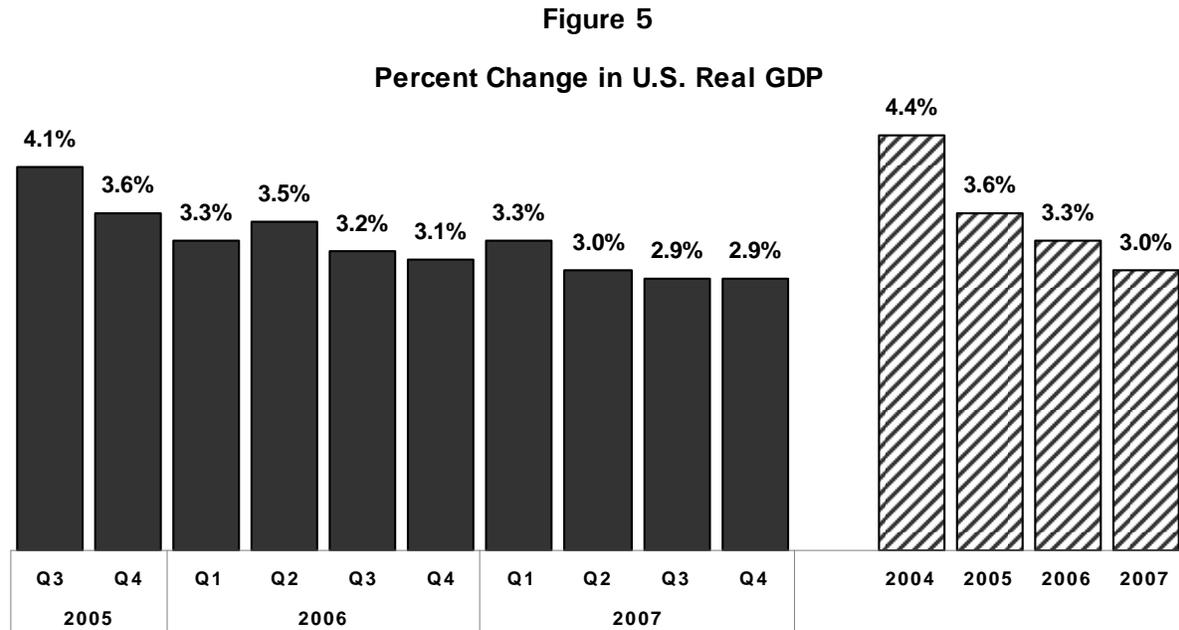
The index of consumer sentiment began 2003 with a three-month drop before rebounding in April and May. For the remainder of the year, the index generally followed an upward trend comprised of small monthly changes.

After a large spike in January 2004 brought the index to over 100 for the first time in more than three years, it immediately dropped back in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined each of the next five months due, in part, to concerns about high gas prices and the possibility that the economy may be weakening.

In the wake of hurricanes Katrina and Rita in 2005, the index plunged to 72.4 in October before rising to a level of 91.5 in December.

## **Real GDP**

**Figure 5** shows the estimated percent change in U.S. Real GDP for CY 2005, CY 2006, and CY 2007. After rising 4.1% during the third quarter of 2005, real GDP growth is anticipated to slow to 3.6% in the fourth quarter. Real GDP growth was 4.2% in CY 2004, and is forecast to be 3.6% in CY 2005, 3.3% in CY 2006, and 3.0% in CY 2007.



GDP growth continues to be fueled by both private and business investment. Despite a projected decline in inventories, gross private domestic investment is forecast to increase 6.1% in CY 2005. Business fixed investment is expected to remain strong through CY 2007, which should more than offset projected declines in residential construction. Gross private domestic investment is estimated to increase by 5.5% in CY 2006 and 3.7% in CY 2007.

Personal consumption advanced 3.9% during CY 2004. As the economy begins to slow down, personal consumption is predicted to increase 3.6% in CY 2005, 3.3% in CY 2006, and 3.5% in CY 2007.

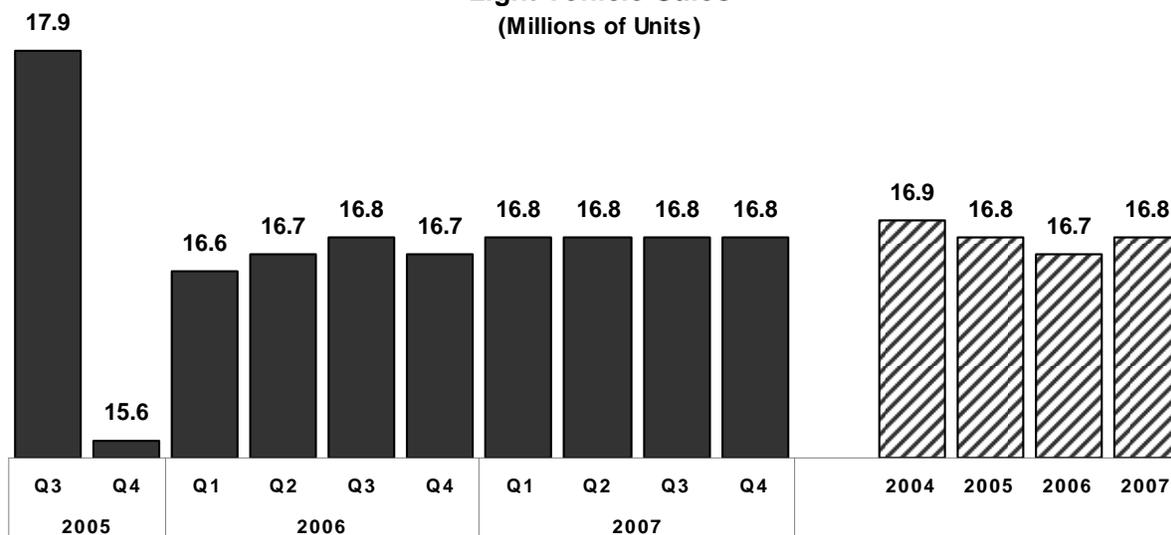
## **Light Vehicle Sales**

**Figure 6** shows estimated light vehicle sales estimates for CY 2005, CY 2006, and CY 2007. Despite ongoing incentives, sales of light motor vehicles in CY 2005 are expected to total 16.8 million units—well below the CY 2000 record level of 17.2 million units. Light vehicle sales are anticipated to total 16.7 million units in CY 2006 and 16.8 million units in CY 2007.

Over the past several years, there has been a shift in sales away from cars and toward light trucks. The share of light trucks is expected to decline slightly in CY 2005, then stabilize in CY 2006. Light trucks, which accounted for just under 56.0% of total sales in CY 2004, are expected to account for 54.4% in CY 2005, and 52.5% in both CY 2006 and CY 2007.

**Figure 6**

**Light Vehicle Sales  
(Millions of Units)**



The import share of total light vehicle sales is expected to hold steady at 20.2% in CY 2005, and is forecast to increase slightly to 21.4% in CY 2006, and 21.5% in CY 2007.

**Inflation**

**U.S. Inflation**

Although the overall increase in input prices (e.g., energy prices, wages, and import prices) has generally remained moderate and helped hold down production costs, increasing crude oil prices could significantly impact almost all sectors of the economy.

Benchmark West Texas intermediate crude, which averaged just over \$41 per barrel in CY 2004, began 2005 near \$47 per barrel, and reached a high of almost \$65 per barrel in September following hurricanes Katrina and Rita. Continued concern over the stability of the oil supply and increased world demand have caused oil prices to remain near \$59 per barrel, 36% higher than one year ago. It is anticipated that oil prices will drop very slightly throughout the forecast period and average about \$58 per barrel during CY 2005 and \$54 per barrel in CY 2006.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 2.7% in CY 2004, and is expected to rise

slightly to 3.4% in CY 2005 before dipping to 2.6% in CY 2006 and 1.8% in CY 2007.

**Michigan Inflation**

The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). Michigan’s average inflation rate was 1.6% in CY 2004. Inflation in Michigan should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to increase by 2.8% in CY 2005, 2.4% in CY 2006, and 1.7% in CY 2007.

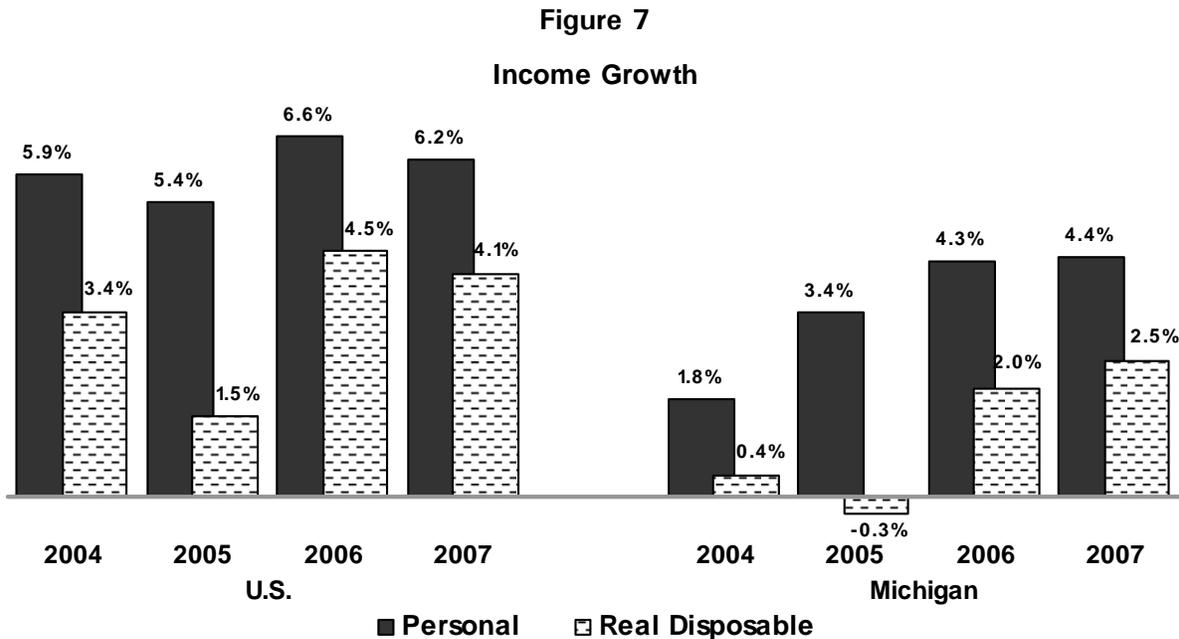
**Income Growth**

Figure 7 shows personal and real disposable income growth for both the U.S. and Michigan.

**U.S. Income Growth**

Total U.S. personal income grew by 5.9% in CY 2004. Personal income growth is forecast to increase 5.4% in CY 2005, 6.6% in CY 2006, and 6.2% in CY 2007.

Moderate growth in inflation contributed to a 3.4% growth of U.S. real disposable income in CY 2004. It is forecast that U.S. real disposable income growth will increase 1.5% in CY 2005, 4.5% in CY 2006, and 4.1% in CY 2007.



**Michigan Income Growth**

Michigan’s total state personal income growth was 1.8% in CY 2004. Michigan personal income is forecast to increase 3.4% in CY 2005, 4.3% in CY 2006, and 4.4% in CY 2007.

Michigan real disposable income grew 0.4% in CY 2004. In CY 2005, real disposable income is forecast to decline 0.3% before growing 2.0% in CY 2006 and 2.5% in CY 2007.

**Employment**

**Figure 8** shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

**U.S. Employment**

One critical factor underscoring the difference in income growth between the U.S. and Michigan is overall job growth. National employment posted average monthly gains of almost 183,000 during 2004, and just over 167,000 through November 2005. Non-farm employment for the U. S. is projected to increase by 1.6% in CY 2005, 1.4% in CY 2006, and 1.5% in CY 2007.

**Michigan Employment**

The Michigan economy has continued to endure a weak labor market; employment declined by about 15,400 workers in CY 2004, and is estimated to decline by almost 31,000 workers in CY 2005. The forecast calls for continued job losses through the fourth quarter of CY 2006 before employment begins growing in the first quarter of CY 2007. This growth, however, may not be sufficient to actually generate a net increase in the number of jobs for CY 2007 as a whole.

**Figure 8**

**Michigan Employment Growth**



Michigan wage and salary employment fell 0.3% in CY 2004, and is forecast to fall 0.7% in CY 2005 and 0.6% in CY 2006 before remaining constant in CY 2007. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of 1.0%

Michigan manufacturing employment dropped 2.9% in CY 2004, and is forecast to decrease 3.1% in CY 2005, 2.5% in CY 2006, and 2.9% in CY 2007. Although the most significant declines are concentrated in the motor vehicle industry, employment declines also appear throughout the entire manufacturing sector.

Michigan private non-manufacturing employment rose a modest 0.2% in CY 2004. It is expected to drop 0.2% in CY 2005, and remain constant in CY 2006 before growing 0.6% in CY 2007.

## **Unemployment**

### **U.S. Unemployment**

Total non-farm employment through November 2005 has grown each of the past 30 months, which has helped to decrease the unemployment rate. Although much of this growth has been in service-providing sectors, the goods-producing sector has also experienced growth during the past year. Only the manufacturing sector continues to shed jobs.

The U.S. unemployment rate was 5.5% in CY 2004; it is forecast to drop to 5.1% in CY 2005 and 4.9% in CY 2006 and CY 2007.

### **Michigan Unemployment**

While employment in Michigan remains a concern as employment growth has fallen during the past five years, there are indications that continued job losses may eventually subside. Michigan employment is forecast to continue declining slowly throughout 2006 before rebounding very slightly during 2007. As a result, the unemployment rate is expected to remain relatively high through 2007 as increases in the labor force (and unemployment) more than offset any employment gains.

Michigan's unemployment rate was 7.1% in CY 2004, and is expected to drop slightly to 6.8% in CY 2005 before increasing to 7.0% in CY 2006 and 7.5% in CY 2007.

**Table 4**  
**ECONOMIC FORECAST VARIABLES**

	<u>Calendar 2004 Actual</u>	<u>Calendar 2005 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2006 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2007 Estimated</u>	<u>% Change from Prior Year</u>
<b><u>United States</u></b>							
Real Gross Domestic Product (Billions of 2000 dollars)	\$10,755.7	\$11,146.8	3.6%	\$11,510.0	3.3%	\$11,858.0	3.0%
Implicit Price Deflator GDP (2000 = 100)	109.1	112.1	2.7%	115.1	2.7%	118.0	2.5%
Consumer Price Index (1982-84 = 100)	188.9	195.3	3.4%	200.4	2.6%	204.1	1.8%
Personal Consumption Deflator (2000 = 100)	108.2	111.2	2.8%	113.5	2.0%	115.5	1.8%
3-month Treasury Bills Interest Rate (Percent)	1.4%	3.2%		4.4%		4.5%	
Aaa Corporate Bonds Interest Rate (Percent)	5.6%	5.3%		6.2%		6.6%	
Unemployment Rate - Civilian (Percent)	5.5%	5.1%		4.9%		4.9%	
Light Vehicle Sales (Millions of units)	16.9	16.8	-0.3%	16.7	-0.7%	16.8	0.5%
Passenger Car Sales (Millions of units)	7.5	7.7	2.2%	7.9	3.4%	8.0	0.5%
Light Truck Sales (Millions of units)	9.4	9.1	-2.3%	8.8	-4.1%	8.8	0.5%
Import Share of Light Vehicles (Percent)	20.2%	20.2%		21.4%		21.5%	
Personal Income (Billions of current dollars)	\$9,713.3	\$10,240.9	5.4%	\$10,915.7	6.6%	\$11,587.1	6.2%
Real Disposable Income (Billions of 2000 dollars)	\$8,004.1	\$8,121.4	1.5%	\$8,487.2	4.5%	\$8,831.1	4.1%
<b><u>Michigan</u></b>							
Wage and Salary Employment (Thousands)	4,394	4,363	-0.7%	4,339	-0.6%	4,339	0.0%
Unemployment Rate (Percent)	7.1%	6.8%		7.0%		7.5%	
Personal Income (Millions of current dollars)	\$324,134	\$335,052	3.4%	\$349,548	4.3%	\$364,876	4.4%
Real Personal Income (Millions of 1982-84 dollars)	\$174,761	\$175,776	0.6%	\$179,064	1.9%	\$183,877	2.7%
Real Disposable Income (Millions of 1982-84 dollars)	\$156,292	\$155,751	-0.3%	\$158,797	2.0%	\$162,811	2.5%
Wage and Salary Income (Millions of current dollars)	\$180,246	\$186,777	3.6%	\$191,468	2.5%	\$197,763	3.3%
Detroit Consumer Price Index (1982-84 = 100)	185.5	190.6	2.8%	195.2	2.4%	198.4	1.7%
Detroit CPI (FY) (1982-84 = 100)	184.4	189.1	2.6%	194.4	2.8%	197.6	1.7%



# RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is made. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. The key risks in this forecast stem predominantly from uncertainties surrounding the energy prices, the housing market, and the intense competition in the motor vehicle industry.

## **Energy Prices**

The average West Texas Intermediate crude oil price was \$63 per barrel in the third quarter of 2005—approximately \$19 per barrel higher than in the year-ago quarter. Oil prices are forecast to remain elevated throughout CY 2006 and CY 2007, averaging \$58 per barrel in CY 2006 and \$54 per barrel in CY 2007. These prices are significantly higher than the previously-estimated long-term trend price of oil. Global supply constraints and increased world demand have contributed to the high oil prices. Natural gas prices are expected to remain elevated through the winter season.

Energy prices affect the economy primarily through allocation of disposable income—because more income is used for energy-related goods, less is used for all other items. Energy prices could fall below the estimated level—causing economic growth to be stronger than anticipated, or they may be higher than estimated—resulting in economic growth below the forecasted level.

## **Housing Market**

National housing activity has remained exceptionally strong over the last several years. Over the last few years, consumer spending has been aided by refinancing activity on homes that have appreciated in value and, despite increases in short-term interest rates, housing prices have posted significant gains. After a 10% increase in CY 2004, new and existing home sales increased approximately 4% in CY 2005.

The housing market is expected to slow as interest rates continue to move higher. Consumer spending is expected to slow as the housing market cools in home sales and in refinancing activity. Consumption is forecast to grow 3.3% in CY 2006 and 3.5% in CY 2007.

### **Michigan's Motor Vehicle Industry**

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light vehicle sales are expected to be 16.8 million units in CY 2005 and are forecast to be 16.7 million in CY 2006 before increasing slightly to 16.8 million in CY 2007. The import share of light vehicles is expected to be 20.2% in CY 2005, and is forecast to be 21.4% in CY 2006 and 21.5% in CY 2007.

The market share of the big three auto manufacturers declined to an estimated all-time low of 56.9% in CY 2005. Imports and vehicles with a foreign nameplate that are made in the U.S. (transplants) have steadily gained in market share over the past several years. The extent to which the domestic nameplates can hold on to market share will have a direct impact on Michigan's economy. This forecast assumes that the big three market share will decline by approximately 1.5% – 2% per year in both CY 2006 and CY 2007.

Michigan transportation employment is forecast to decline 4.7% in CY 2006 and 6.5% in CY 2007. If the Michigan-produced market share of motor vehicles is less than anticipated, Michigan's economy and revenue growth will be lower than estimated.



# GF/GP AND SAF REVENUE

Revenue estimates are based on economic performance of the components of national and state economies as discussed in the previous section. This section explains January 2006 House Fiscal Agency revenue estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue by major revenue sources. It provides revenue estimates, year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

## **GF/GP Revenue by Source**

### **GF/GP Baseline Tax Revenue**

Baseline GF/GP tax revenue totaled \$7,823.2 million in FY 2004-05; it is estimated to increase \$118.3 million (1.5%) to \$7,941.5 million in FY 2005-06, and \$182.6 million (2.3%) to \$8,124.1 million in FY 2006-07.

### **Total GF/GP Baseline Revenue**

Total baseline GF/GP revenue includes baseline tax revenue and non-tax revenue such as federal aid, licenses and permits, and transfers from the liquor purchase revolving fund. Total GF/GP baseline revenue was \$8,120.9 million in FY 2004-05; it is estimated to increase 0.9% to \$8,194.0 million in FY 2005-06, and \$182.6 million (2.2%) to \$8,376.6 million in FY 2006-07.

### **Actual GF/GP Revenue**

Actual GF/GP revenue takes tax changes into account and is available for expenditure each year. Final actual GF/GP revenue was \$8,309.9 million in FY 2004-05; it is forecast to decline 0.5% or \$40.8 million to \$8,269.0 million in FY 2005-06, and increase 1.1% or \$93.4 million to \$8,362.4 million in FY 2006-07.

## **SAF Revenue by Source**

### **Total SAF Baseline Revenue**

Total SAF baseline revenue was \$10,921.3 million in FY 2004-05; it is forecast to increase 2.4% or \$256.9 million to \$11,178.2 million in FY 2005-06, and 3.1% or \$341.9 million to \$11,520.0 million in FY 2006-07.

### **Actual SAF Revenue**

Actual SAF revenue takes tax changes into account. Actual SAF revenue totaled \$10,909.9 million in FY 2004-05; it is forecast to increase \$289.9 million or 2.7% to \$11,199.8 million in FY 2005-06 and \$344.3 million or 3.1% to \$11,544.1 million in FY 2006-07.

## **HFA Estimates of Year-End Balances**

**Table 7** reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 2005-06 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2003-04 and FY 2004-05 figures are included.

Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

**Table 5**  
**GF/GP REVENUE ESTIMATES**  
(Millions of Dollars)

	Final FY 2004-05	FY 2005-06	FY 2006-07	Fiscal Year 2006-07 over 2005-06	
				%Change	\$Change
Personal Income Taxes	\$4,139.4	\$4,143.3	\$4,245.0	2.5%	\$101.7
Sales and Use Taxes	1,031.8	1,081.7	1,132.3	4.7%	50.6
SBT and Insurance Taxes	2,163.0	2,216.1	2,271.9	2.5%	55.8
Other Taxes	<u>489.0</u>	<u>500.4</u>	<u>474.8</u>	-5.1%	<u>(25.6)</u>
<b>GF/GP Baseline Tax Revenue</b>	<b>\$7,823.2</b>	<b>\$7,941.5</b>	<b>\$8,124.1</b>	<b>2.3%</b>	<b>\$182.6</b>
Non-Tax Revenue	<u>297.7</u>	<u>252.5</u>	<u>252.5</u>	0.0%	<u>0.0</u>
<b>Total GF/GP Baseline Revenue</b>	<b>\$8,120.9</b>	<b>\$8,194.0</b>	<b>\$8,376.6</b>	<b>2.2%</b>	<b>\$182.6</b>
Adjustments to Baseline	<u>189.0</u>	<u>75.1</u>	<u>(14.2)</u>	118.9%	<u>(89.2)</u>
<b>Actual GF/GP Revenue</b>	<b>\$8,309.9</b>	<b>\$8,269.0</b>	<b>\$8,362.4</b>	<b>1.1%</b>	<b>\$93.4</b>

*NOTE: Numbers may not add due to rounding.*

**Table 6**  
**SCHOOL AID FUND REVENUE ESTIMATES**  
(Millions of Dollars)

	Final			Fiscal Year 2006-07 over 2005-06	
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>% Change</u>	<u>\$ Change</u>
Sales and Use Tax	\$5,279.1	\$5,422.9	\$5,626.0	3.7%	203.1
Income Tax Earmark	1,988.9	2,043.7	2,107.4	3.1%	63.7
State Education Tax	1,916.6	2,003.0	2,090.0	4.3%	87.0
Lottery/Casino Wagering	765.1	758.0	761.5	0.5%	3.5
Tobacco Taxes	473.1	466.0	459.0	-1.5%	(7.0)
Real Estate Transfer Tax	313.5	304.0	295.0	-3.0%	(9.0)
Other Taxes	<u>184.9</u>	<u>180.6</u>	<u>181.1</u>	0.3%	<u>0.5</u>
<b>Baseline SAF Revenue</b>	<b>\$10,921.3</b>	<b>\$11,178.2</b>	<b>\$11,520.0</b>	<b>3.1%</b>	<b>\$341.9</b>
Adjustments to Baseline	<u>(11.4)</u>	<u>21.6</u>	<u>24.1</u>	11.5%	<u>2.5</u>
<b>Actual SAF Revenue</b>	<b>\$10,909.9</b>	<b>\$11,199.8</b>	<b>\$11,544.1</b>	<b>3.1%</b>	<b>\$344.3</b>

*NOTE: Numbers may not add due to rounding.*

**Table 7**  
**YEAR-END BALANCE ESTIMATES**  
(Millions of Dollars)

	Final <u>FY 2003-04</u>	Final <u>FY 2004-05</u>	Estimated <u>FY 2005-06</u>
General Fund/General Purpose	\$0.0	\$220.5	\$195.6
School Aid Fund	\$74.1	\$98.0	\$139.0
Budget Stabilization Fund	\$81.3	\$2.0	\$2.1

*School Aid Fund revenues are restricted; any year-end balance is carried forward to the subsequent year.*

**BSF Year-End Balance**

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout the economic and budget cycles. **Table 8** shows deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2006-2007. **Figure 9** depicts the BSF fund balance and fund balance as a percent of total GF/GP and SAF revenues.

**FY 2004-05**

Based on final FY 2004-05 data, \$79.3 million was transferred from the BSF to GF/GP. The BSF ending balance was \$2.0 million.

**FY 2005-06 and FY 2006-07**

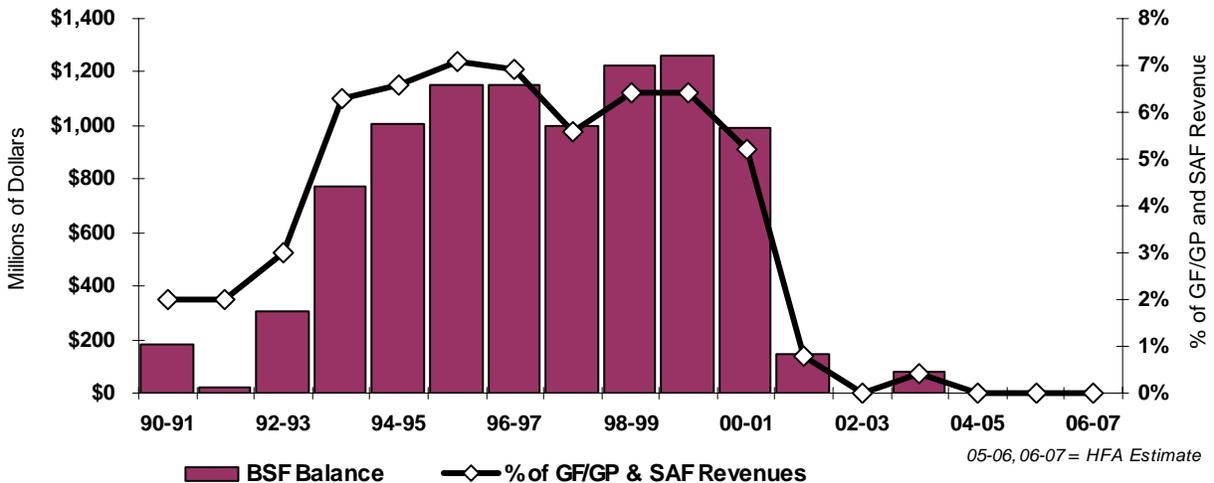
The BSF trigger calculation, which is based on Michigan personal income less transfer payments adjusted for inflation, and actual or net GF/GP revenue, indicates no pay-in or withdrawal for FY 2005-06 or FY 2006-07. Pay-ins to the BSF are subject to an appropriation.

**Table 8**  
**BUDGET STABILIZATION FUND HISTORY**  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.7	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.2	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99	244.4	73.7	51.2	1,222.5
1999-2000	100.0	132.0	73.9	1,264.4
2000-01	0.0	337.0	66.7	994.2
2001-02	0.0	869.8	20.8	145.2
2002-03	0.0	156.1	10.9	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	79.3	0.0	2.0
2005-06*	0.0	0.0	0.1	2.1
2006-07*	0.0	0.0	0.1	2.2

\* HFA Estimates NOTE: Numbers may not add due to rounding.

**Figure 9**  
**Budget Stabilization Fund**



## **Compliance With the State Revenue Limit**

Article IX, Section 26 of the *Michigan Constitution*, which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9**, **Table 10**, and **Figure 10**, the final FY 2003-04 revenue limit calculation indicated that state revenue collections were \$4.44 billion below the revenue limit. For FY 2004-05 through FY 2006-07, state revenue is estimated to be substantially below the revenue limit, by \$4.99 billion, \$5.57 billion, and \$6.05 billion, respectively.

**Table 9**  
**COMPLIANCE WITH THE STATE REVENUE LIMIT**  
(Millions of Dollars)

<b><u>Revenue Limit Calculations</u></b>	<b><u>Final FY 2003-04</u></b>	<b><u>Estimated FY 2004-05</u></b>	<b><u>Estimated FY 2005-06</u></b>	<b><u>Estimated FY 2006-07</u></b>
Personal Income				
Calendar Year	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004</u>	<u>CY 2005</u>
Amount	\$303,745	\$314,460	\$324,134	\$335,052
X Limit Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
<b>State Revenue Limit</b>	<b>\$28,825.4</b>	<b>\$29,842.3</b>	<b>\$30,760.3</b>	<b>\$31,796.5</b>
Total Revenue Subject to Revenue Limit	<u>24,384.7</u>	<u>24,853.4</u>	<u>25,192.4</u>	<u>25,742.3</u>
<b>Amount (Under) Over State Revenue Limit</b>	<b>(\$4,440.7)</b>	<b>(\$4,989.9)</b>	<b>(\$5,568.0)</b>	<b>(\$6,054.2)</b>

*NOTE: Numbers may not add due to rounding.*

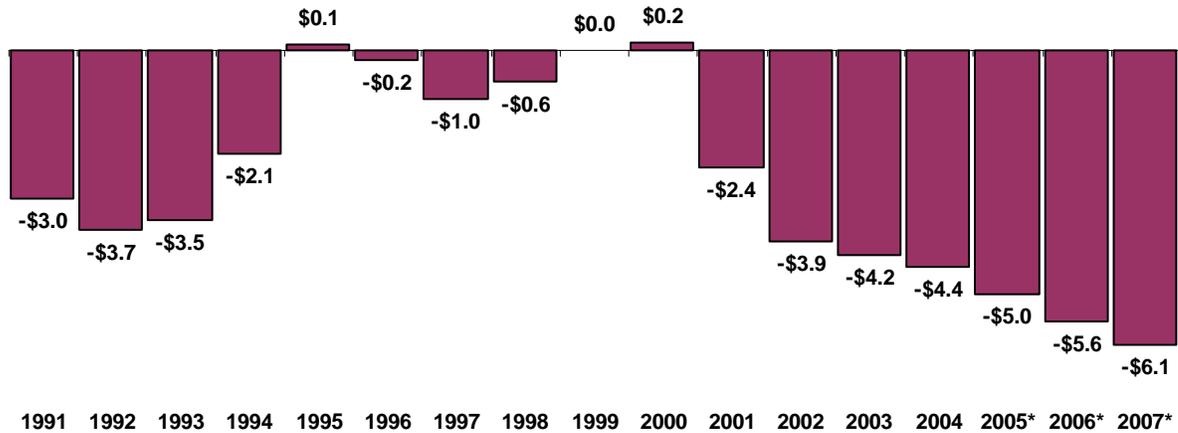
**Table 10**  
**CONSTITUTIONAL REVENUE LIMIT HISTORY**  
 (Billions of Dollars)

<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>
1990-91	(\$3.04)
1991-92	(\$3.69)
1992-93	(\$3.48)
1993-94	(\$2.11)
1994-95	\$0.11
1995-96	(\$0.18)
1996-97	(\$0.98)
1997-98	(\$0.64)
1998-99	\$0.02
1999-2000	\$0.16
2000-01	(\$2.41)
2001-02	(\$3.92)
2002-03	(\$4.18)
2003-04	(\$4.44)
* 2004-05	(\$4.99)
* 2005-06	(\$5.57)
* 2006-07	(\$6.05)

*\*HFA Estimate*

**Figure 10**

**Constitutional Revenue Limit**  
 Amount Under or Over Limit (Billions of Dollars)



*\*HFA Estimate*





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